

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

**COMMENTS OF CALPINE CORPORATION, CALPINE ENERGY SOLUTIONS AND  
CHAMPION ENERGY SERVICES TO THE ILLINOIS COMMERCE COMMISSION’S  
REQUEST FOR COMMENTS REGARDING RESOURCE ADEQUACY IN MISO  
ZONE 4**

Calpine Corporation, Calpine Energy Solutions and Champion Energy Services (jointly, “Calpine”) appreciate the opportunity to respond to the Illinois Commerce Commission’s (“ICC” or “Commission”) request for input regarding resource adequacy issues in the Midcontinent Independent System Operator’s (“MISO”) Zone 4. As an independent power producer (“IPP”) and Alternative Retail Electric Supplier (“ARES”), Calpine has a substantial interest in the Commission’s development of policies related to ensuring adequate generation supply.

The recent ICC Staff Report on Resource Adequacy in MISO Zone 4 (“Report”) lays out four potential policy options for consideration to address long-term resource adequacy concerns. Calpine believes the first option, which relies on existing competitive forces and market structures, is the best path forward.

As noted in the Report, MISO is expected to have adequate capacity to meet its Zone 4 requirements through 2022. Therefore, the Commission has time to thoroughly review this issue and propose long-term, sustainable solutions through the ISO stakeholder process. While the MISO proposal for a Competitive Retail Solution was rejected by the Federal Energy Regulatory Commission (“FERC”) earlier this year, the ICC should urge MISO to pursue a modified version of the proposal to address resource adequacy needs.

As a general matter, Calpine is concerned about the implications of current state policymaker efforts to influence resource adequacy processes in their states by supporting out-of-

market subsidies. These subsidies have the potential to distort competitive market prices and threaten the continued viability of wholesale and retail energy markets.

Notwithstanding our concern about recent state efforts to intervene in FERC-jurisdictional wholesale markets, Calpine believes that state policymakers should work with FERC and MISO to develop and implement market rules that support state public policy goals but at the same time protects the integrity of competitive markets. To that end, the ICC should collaborate with FERC and RTO stakeholders to create long-term resource adequacy solutions in Zone 4.

Rather than express a view on all of the options in the Report, these comments focus on several recommendations that Calpine believes would have the greatest impact in addressing resource adequacy concerns in MISO Zone 4.

*Recommendation #1: Adopt a three-year, forward looking resource adequacy structure*

A three-year forward resource adequacy market will result in strong price signals/transparent capacity prices far enough forward to guide orderly investment and retirement decisions. In addition, this type of market construct would provide suppliers and customers with advanced ability to recognize upcoming capacity prices and respond accordingly.

This is an improvement over the current market structure which provides only a 6 ½ week notice of the annual Planning Resource Auction (“PRA”) clearing price prior to the beginning of the Planning Year. This short notice is inadequate because suppliers and customers are both price takers and quantity takers in the sense that such an abbreviated time frame precludes customers from adjusting their planned usage patterns in response to prices, as well as providing exposure to price changes. A forward construct would provide adequate price signals

to potential generation builders/owners to locate generation within a zone in response to capacity price signals.

Short term procurement auctions do not provide potential entrants an opportunity to participate in the auction which increases the potential for incumbent generators to exercise market power. Moreover, a short-term construct does not enable generation investors with a way of locking in capacity prices (certainty) prior to project completion.

*Recommendation #2: Develop a downward-sloping demand curve*

To ensure that centralized capacity markets procure enough capacity to meet the planning reserve margin at just and reasonable rates, the eastern RTOs/ISOs have adopted market clearing processes that rely in part on an administratively determined demand curve that approximates customer demand for capacity resources and the prices they are willing to pay for them at various levels of supply. A downward sloping demand curve reduces price volatility by allowing capacity prices to change gradually over time in response to changes in the balance of supply and demand. This lower volatility can encourage greater investment and reduce costs of investment by reducing risk.

In addition, a downward sloping demand curve can yield market results that better reflect the actual incremental value of any additional capacity procured in excess of the target level of capacity, or any incremental costs of any shortfalls of capacity procured below the target level of reserve capacity. Moreover, a sloping demand curve can mitigate market power by making it less profitable for existing suppliers with significant market share to physically or economically withhold capacity from the auction.

*Recommendation #3: Promote state policies that do not provide out-of-market subsidies for existing generation.*

Due to state policymaker actions to subsidize certain generation, competitive wholesale markets are being threatened. The current trend where states subsidize some generation but leave the remaining generation to rely on the market for their revenue is unsustainable. This type of “hybrid market” where the state relies in part on the competitive wholesale market to meet its resource needs, but also retains the right to select and subsidize preferred generation types to meet policy goals or prevent unit retirements destroys new competitive investment and threatens the viability of the competitive market. The ICC should recommend that policymakers resist the urge to further harm the competitive market by offering preferential treatment to specific generation resources.

## **CONCLUSION**

While not intended to be exhaustive, with these foundational elements in place, the market will encourage competition among potential capacity resources so that consumers benefit from robust competition and the lowest cost for long-term resource adequacy. In adopting a resource adequacy construct for Zone 4, it is important to focus on ensuring long term system reliability, incentivizing new generation build—and not seeking a results-oriented approach driven by low price. A robust resource adequacy construct is especially important to accommodate the rapid change in the generation resource mix that is necessary to meet the environmental challenges of the future.

Calpine believes the recommendations herein support fundamental competitive energy market principles and bolster resource adequacy objectives to ensure adequate long-term

reserves are available to serve load. Calpine looks forward to participating in the ongoing resource adequacy activities at the Commission.

Respectfully submitted,

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